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White House Nixes Shoe Relief

After limited sole-searching, President Reagan on August 28 rejected proposals to impose quotas or higher tariffs on shoe imports, continuing a pattern that has infuriated Congress and left the administration vulnerable to charges that it is neglecting international trade issues. Rejecting domestic producer arguments that import relief is necessary to preserve employment and restore health to the struggling industry, the president sided with consumers, reasoning that the costs of preserving jobs in the industry was far too great to justify the move and would mean taking a step backward in the drive to increase access for American products overseas. The administration promised instead to pursue remedies provided under existing legislation for unfair trade practice complaints and said it would provide worker retraining through the Department of Labor for shoe industry employees affected by rising imports.

The administration's action brought a predictable outcry from several key members of Congress over the substance and direction of U.S. trade policies. Sens. John Danforth (R, Mo.) and Lloyd Bentsen (D, Tex.) both suggested that the administration's failure to protect American interests in an increasingly one-sided game left Congress with no choice but to take independent legislative initiatives. The president defended his policies in

battle for the hearts and minds of Sankyo's institutional shareholders is already intense -- the presidents of the two firms are making the rounds and trading blows in public.

This brazen activity would not have been contemplated before Tokyo's financial deregulation exposed more financial institutions to international competition and opened new sources of finance to Japanese companies. The pressure to produce higher returns on investments has shattered the complacent attitude of institutional as well as small investors. Other holders of Sankyo Seiki shares may support the buyout because of Minebea's reputation for improving profits. On the other side of the equation, Minebea built its takeover war chest with funds from European money markets. Access to such foreign financial resources was limited prior to the liberalizations.

Ironically, these same liberalizations exposed Minebea in turn to takeover. Trafalgar Holdings of the United States acquired an option to buy Minebea's convertible and warrant bonds from a British financial house worth 23 percent of the ball bearing firm's outstanding shares, illustrating the risks of international finance. Minebea spokesmen reacted cautiously to the U.S. firm's announcement, citing a lack of hostile statements from the American suitor.

Although Minebea's growth plan is still unorthodox in the eyes of many Japanese, it is likely to become more common as various Japanese industries undergo a shakeout. As in other cases where the Japanese have borrowed know-how from foreigners, however, the takeover process will be distinctly Japanese. Forced mergers, rather than straightforward buyouts, will probably be the favored mode. In regard to the Minebea-Sankyo Seiki affair, new twists and turns could develop at any time, making Minebea's bid anything but assured.

Jon Choy

Japan-Korea Cooperation

On August 30, Japan and South Korea initialed an accord on science and technology intended to promote transfers of Japanese technology to Korea through government and other public institutions. The accord is a result of the summit meeting of Prime Minister Yasuhiro Nakasone and President Chun Doo Hwan last September. The Koreans had hoped to include a provision pledging the government of Japan to encourage the export of privately owned high technology to Korea. Tokyo objected to such a clause on the grounds that those exports should be decided by the private sector on a commercial basis, but did agree to mention the desirability of such exchanges in the preamble of the agreement. The two countries agreed to establish a committee to promote cooperation in the area of science and technology.

Japan is the largest foreign investor in South Korea, accounting for 47.4 percent of total foreign investment in that country, followed by the United States at 31.2 percent (see table). Increasing Japanese labor costs, liberalized restrictions on foreign investment in Korea, and the fear of being outmaneuvered by competitors in other developed countries have all encouraged Japanese investment in Korea. According to Chung Ju Yung, the founder of the

Hyundai Group (Korea's biggest business group), the small size of the domestic market in Japan and Korea relative to the United States will also encourage industrial cooperation. Manufacturing firms in the two countries will find it advantageous to share the risks involved in the development and mass-production of goods for the world market, he noted. Japan is also the most important source of Korea's technology transfers, accounting for imports of 215 technologies in 1984, roughly one-half the total volume. Japanese transfers to Korea were more than double those of the United States in 1984 and were also twice as large as Tokyo's technology exports in 1981.

Foreign Investment in Korea by Country

(in millions of dollars)

Country	1962-81	1982	1983	1984	Total	Percent Share
Japan	$633.3	$42.6	$167.5	$163.8	$1,007.2	47.4%
United States	310.3	107.6	53.4	191.0	662.3	31.2
Europe	177.9	9.8	23.4	49.8	260.9	12.3
Others	127.1	27.8	23.5	14.4	192.8	9.1
Total	1,248.6	187.8	267.8	419.0	2,123.2	100.0

Source: Korea, Ministry of Finance

The table also indicates, however, that Japanese investment in Korea declined slightly in 1984 to $163.8 million while investment by the United States more than tripled to $191 million. Several Japanese-Korean joint business ventures have been terminated unexpectedly as a result of problems on both sides. The Koreans were dismayed by the increasing trade deficit with Japan that resulted from expanded economic ties between the two countries. Seoul, which reported a $1.4 billion trade deficit overall in 1984, had a $3 billion deficit with Japan alone last year. Japanese manufacturers, meanwhile, were often unwilling to meet their Korean partners' demands for sophisticated production technologies, fearing that those technologies could be used to reduce Japan's market share in the future. In addition, some Japanese firms found production costs in Korea higher than originally anticipated, partly because Korean labor is organized into separate unions for foreign and domestic enterprises.

The agreement comes at a challenging time for the South Korean economy. Korean exports during the first six months of 1985 fell 4.1 percent over the year-earlier period, compared to a 19.6 percent rise in 1984. Korea's $43 billion foreign debt, the fourth-largest worldwide, has become a domestic political issue. Moreover, economic growth is forecast to dip slightly from 7.6 percent in 1984 to around 6.5 percent in 1985. On the positive side, inflation has been cut from 21.3 percent in 1981 to 2.3 percent in 1984.

Randall S. Jones